



## REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NALEDI LOCAL MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I was engaged to audit the financial statements of the Naledi Local Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages XX to XX.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### Basis for disclaimer of opinion

##### Accumulated surplus

4. Limitations placed on my audit relating to expenditure, revenue transactions and adjustments made to the accumulated surplus in prior years have not been resolved. In the absence of sufficient appropriate audit evidence to substantiate these transactions and adjustments included in the accumulated surplus of R810 140 831 (2011: R861 659 275), I was unable to verify the completeness, valuation and allocation by alternative means. Consequently I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.
5. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, rights and obligations, valuation and allocation for prior year adjustments of 2011: R3 209 746 (2010: R805 553 758) included in the accumulated surplus of R810 140 834 (2011: R861 659 277) disclosed in the statement of changes in net assets and statement of financial position. The municipality's records did not permit the application of alternative audit procedures. Furthermore, a difference of R97 133 886 exist between the prior period correction in statement of net assets and note 33 to financial statements. Consequently I was unable to determine whether any adjustment to this amount was necessary.

## **Revenue**

6. I was unable to obtain sufficient appropriate audit evidence to determine the completeness of property rates of R23 972 037 and rental income, fines and other revenue of R3 447 834 as disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustment to revenue was necessary.
7. The equitable share grant recorded as revenue and disclosed in note 18.1 to the financial statements is understated with R5 529 407 and unspent conditional grants as disclosed in note 11 overstated with the same amount due to the incorrect allocation of funds withheld by National Treasury.
8. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine the occurrence, accuracy, completeness, and classification of service charges of R107 411 285 disclosed in the statement of financial performance and note 16 to the financial statements. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Expenditure**

9. SA Standards of GRAP, GRAP 1, *Presentation of financial statements* require that expenditure be recognised when it is incurred. Contrary to this requirement not all bulk purchases incurred were recorded as expenditure. Consequently, bulk purchase expenditure of R41 952 251 (2011: R45 785 826) as disclosed in the statement of financial performance and note 27 to the financial statements is understated by R1 754 386 (2011: R6 787 120) and trade payables of R118 938 257 (2011: R81 725 425) as disclosed in the statement of financial position and note 8 to the financial statements with the same amount.
10. In the prior year, I was unable to obtain sufficient appropriate audit evidence for journal entries of R108 986 967. The municipality's records did not permit the application of alternative audit procedures. I could not practicably determine the effect on the other account balances or classes of transactions contained in the financial statements. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
11. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine the occurrence, completeness, accuracy and classification of bulk purchases of R45 785 826 and repairs and maintenance of R2 428 281 included in repairs and maintenance of R4 110 139 disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.



## Trade and other receivables from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for debtors' of R1 567 425 included in other receivables of R5 398 903 disclosed in the statement of financial position and note 3 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the existence, completeness, valuation and allocation, and rights of other receivables.
13. I was unable to determine whether the municipality used objective evidence to calculate the amount for the provision for impairment of receivables of R156 404 018 (2011: R93 039 987) disclosed in note 2 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39, *Financial Instruments Recognition and Measurement*. Alternative procedure performed, indicate that impairments are overstated with R11 215 408. Consequently, I was unable to satisfy myself as to the completeness, valuation and allocation of impairments of the trade and other receivables or the completeness, accuracy and occurrence of the impairment debt expense.
14. South African Statement of Generally Accepted Accounting Practice, IFRS 7, *Financial Instruments: Disclosures*, require that a sensitivity analysis, the methods and assumptions used for financial instruments with an interest rate risk be included to the financial statements. Contrary to this, no sensitivity analysis was included in note 43 for risk management.
15. I was unable to obtain sufficient appropriate audit evidence for journal entries relating to prior year corrections of R4 113 256 included in the corresponding figure of R50 552 949. The municipality's records did not permit the application of alternative audit procedures. I could not practicably determine the effect on the other corresponding account balances or classes of transactions contained in the financial statements. Consequently I was unable to determine whether any adjustment to this amount was necessary.
16. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine the valuation and allocation of consumer debtors of R50 522 949 disclosed in the statement of financial position and note 2 to the financial statements. The municipality could not provide sufficient appropriate audit evidence that the requirements of South African Statement of Generally Accepted Accounting Practice, IAS 39, *Financial Instruments: Recognition and Measurement*, that require after initial recognition, loans and receivables shall be measured at amortised cost using the effective interest method, were considered. The municipality's records did not permit the application of alternative audit procedures. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## Trade and other payables from exchange transactions

17. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, valuation and obligations of trade and other payables from exchange transactions of R81 725 425 as disclosed the statement of financial position and note 8 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.



## **VAT receivable**

18. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, valuation and allocation, and rights and obligations for the VAT receivable of R17 130 760 (2011: R7 150 762) disclosed in the statement of financial position and note 5 to the financial statements. Alternative procedures indicated a difference of R3 666 070 (2011: R2 741 453) between the financial statements and the underlying returns. The municipality's records did not permit the application of further alternative audit procedures. Consequently I was unable to determine whether any adjustment to VAT receivable was necessary.

## **Irregular expenditure**

19. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine that awards of R13 389 213 were made in terms of the municipality's supply chain management policy. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself that all irregular expenditure has been disclosed in the notes to the financial statements and I could not practicably quantify the resulting misstatement. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
20. In the prior year, awards of R17 297 621 was made in contravention with the municipality's supply chain management policy that was not disclosed as required by section 125 of the MFMA. Consequently my audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Commitments**

21. Commitments "approved and contracted for" of R2 730 787 (2011: R18 548 130) as disclosed in note 36 to the financial statements is understated with R4 253 846 (2011: R2 593 120) due to differences that exist between the signed contracts, the commitment register and the financial statements.
22. In the prior year, I was unable to obtain sufficient appropriate audit evidence to determine the occurrence, rights and obligations, completeness, classification and understandability, accuracy and valuation of commitments of R52 687 485 disclosed in note 36 to the financial statements. Alternative procedures indicated, commitments "approved not yet contracted for" is overstated with R46 108 488. As management did not take any corrective steps, I was unable to determine whether any adjustment to this amount was necessary. My opinion on the current period's balance is also modified because of the possible effect of this matter on the current period's figures.

## **Property, plant and equipment**

23. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, valuation and allocation and rights of land of R136 071 996 (2011: R136 078 074) included property, plant and equipment of R949 793 236 (2011: R971 013 116) as disclosed in note 6 to the financial statements. This was due to 1978 stands registered in the name of the municipality which is not recorded in the asset register. The municipality's records did not permit the application of further alternative audit procedures. Consequently I was unable to determine whether any adjustment to these amounts was necessary.



24. SA standards of GRAP, GRAP 17, *Property, plant and equipment* requires that an item that meets the definition of property, plant and equipment should be recognised on acquisition and that after recognition as an asset, the asset should be carried at cost less accumulated depreciation and impairment losses. Contrary to these requirements the municipality expensed assets with a cost price of R4 389 768. The municipality's records did not permit the application of alternative audit procedures and consequently I was unable to determine the impact of the expensed assets on the depreciation expense in the statement of financial performance as well as the carrying amount of the property, plant and equipment balance in the statement of financial position.

### **Biological assets**

25. SA Standards of GRAP, GRAP 101, *Agriculture* specifically excludes animals that are used primarily for non-productive purposes. Contrary to this scope exclusion the municipality disclosed game of the Leon Taljaard nature reserve as biological assets in line with GRAP 101 instead of SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Consequently, biological assets as disclosed in the statement of financial position and note 7 to the financial statements is overstated with R3 841 700 (2011: R4 838 341) and property, plant and equipment understated with the same amount. Furthermore, I could not practically determine the misstatement in the valuation and allocation of these assets due to the lack of an appropriate accounting policy.

### **Cash and cash equivalents**

26. I was unable to obtain sufficient appropriate audit evidence for journal entries relating to prior year corrections of R9 516 511 included in the corresponding figure of R3 298 807 disclosed in note 1 of the financial statements. The municipality's records did not permit the application of alternative audit procedures. I could not practically determine the effect on the other corresponding account balances or classes of transactions contained in the financial statements. Consequently I was unable to determine whether any adjustment to this amount was necessary.

### **Non-current borrowings**

27. South African Statement of Generally Accepted Accounting Practice, IFRS 7, *Financial Instruments: Disclosures*, requires that for all borrowings where defaults and breached occurred, the details of the any defaults during the period of principle, interest, or redemption of these loans, the carrying amount in default, and whether any default was remedied before the financial statements were issued. Contrary to this, all these requirements as per IFRS 7 have not been disclosed in note 12 to the financial statements. I was unable to practically determine the misstatement of this non disclosure in the financial statements.

### **Fruitless and wasteful expenditure**

28. Section 125 of the MFMA requires disclosure of fruitless and wasteful expenditure. I identified fruitless and wasteful expenditure during the course of the audit, which was subsequently disclosed in note 34.1 to the financial statements. I could not practically determine whether this is the only adjustment that should have been made. I was unable to perform alternative procedures to confirm the completeness of fruitless and wasteful expenditure of R9 300 189 (2011: R43 247 962) as disclosed in note 34.1 to the financial statements. Consequently, I was unable to determine if any further adjustments to this amount was necessary.

## **Cash flow statement**

29. Taking into account the misstatements identified in the financial statements and set out in this report, I was unable to practicably quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and presentation and disclosure of the cash flow statement and notes thereto.

## **Disclaimer of opinion**

30. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

## **Emphasis of matters**

31. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

32. As disclosed in note 33 to the financial statements, the corresponding figures for accumulated surplus, current assets, non-current assets, current liabilities, non-current liabilities have been restated as a result of errors discovered during the audit for the year ending 30 June 2012.

## **Going concern**

33. The statement of financial performance indicates that the Naledi Local Municipality incurred a net loss of R51 518 443 (2011: R10 594 768) during the year ended 30 June 2012 and, as of that date, the municipality's current liabilities exceeded its current assets by R135 288 513. These conditions, along with other matters as set forth in note 45, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Impairments and material losses**

34. As disclosed in note 2 and 27 to the financial statements, impairments of R63 364 031 and material losses of R13 719 703 respectively were incurred as a result of significant impairment of debtors and electricity and water losses.

## **Unauthorised and irregular expenditure**

35. As disclosed in note 34.2 to the financial statements, irregular expenditure of R14 219 746 was incurred in the current year and has not yet been dealt with in accordance with section 32 of the MFMA.

36. As disclosed in note 34.3 to the financial statements, unauthorised expenditure of R55 843 996 was incurred in the current year which has not yet been dealt with in accordance with section 32 of the MFMA.

## **Additional matters**

37. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary schedules**

38. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.



## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

39. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

40. The annual performance report included in the annual report was not presented in time for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.

41. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).

42. The material findings are as follows:

### **Usefulness of information**

43. The National Treasury FMPPI requires that performance indicators be well defined and verifiable and targets be specific and measurable:

- All of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
- All of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
- All of the targets were not specific in clearly identifying the nature and the required level of performance.
- The required performance could not be measured for all of the targets.

This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information as well as the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles and the necessary training to enable application of the principles was not received.

44. The National Treasury Framework for managing programme performance information (FMPPI) requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. All of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the three-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the annual performance plan.

### **Compliance with laws and regulations**

45. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

46. The municipal council did not review its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41 and to the extent that changing circumstances demanded, as required by section 34 of the Municipal Systems



Act, 2000 (Act No.32 of 2000) (MSA) and Municipal Planning and Performance Management Regulation 3.

47. The municipality did not establish a performance management system/the performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan, did not clarify the roles and responsibilities of each role-player in the functioning of the system, did not determine the frequency of reporting and the lines of accountability for performance, did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38 (a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(c), (e), (f) and (g).
48. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
49. The municipality did not monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set.

### **Annual financial statements, performance report and annual reports**

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
51. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/11 annual report was tabled, as required by section 129(1) of the MFMA.
52. The annual performance report for the financial year under review was not prepared, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

### **Audit committee**

53. The audit committee did not advise the council and management on matters relating to internal financial control and internal audits, risk management and performance management as required by section 166(2)(a) of the MFMA.
54. The audit committee did not advise the council and accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
55. The audit committee did not advise the council, accounting officer and the management staff] on matters relating to compliance with the MFMA and DoRA, as required by section 166(2)(a)(vii) of the MFMA.
56. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.
57. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

### **Internal audit**

58. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to



internal controls, accounting procedures and practices, risk and risk management and loss control.

59. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
60. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).
61. The internal audit unit did not assess the functionality and whether the performance management system complied with the requirements of the MSA, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i)(ii)(iii).
62. The internal audit unit did not audit the performance measurements on a continuous basis, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

### **Expenditure management**

63. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
64. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
65. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

### **Procurement and contract management**

66. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
67. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

### **Revenue management**

68. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

### **Human resource management**

69. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.
70. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
71. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
72. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.
73. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
74. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).

75. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).

### **Asset management**

76. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MSA.

### **Waste management**

77. The municipality operated one of their waste disposal sites without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA), while the operational activities on their other waste disposal sites contravened or failed to comply with the requirements of a waste management license or permit and the norms and standards in terms of section 67(1)(f) and (h) of the NEMWA and section 29(4) of the ECA.

78. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

### **Internal control**

79. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report:

### **Leadership**

80. Management failed to timely appoint sufficient appropriately skilled staff in key positions within the finance, performance reporting and supply chain management units, furthermore the training and development initiatives failed to address the underlying deficiencies that caused matters to be repeatedly reported on in the audit report. Policies and procedures did not adequately guide financial, performance activities and compliance with laws and regulations.

### **Financial and performance management**

81. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial, performance reporting and compliance with laws and regulations. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements resulting in material corrections that had to be made during the audit.

### **Governance**

82. Management failed to implement appropriate risk management activities to ensure that regular risk assessments are conducted and that a risk strategy is developed and monitored to address the risks.

83. The shared internal audit service was not effective during the financial year. The internal audit reports were not tabled in council for consideration of recommendations and implementation of corrective action. Council and management failed to recognise the value that internal audit can add to the municipality.



84. The shared audit committee service was not effective during the financial year. The recommendations made and reports were not tabled in council. It had no impact on the achievement of an improved audit outcome for the financial year. The audit committee also did not review the effectiveness of the internal audit during the financial year.

Auditor General

Potchefstroom

30 November 2012



*Auditing to build public confidence*